

January 28, 2014

Mr. Mark W. Cowin, Director
Department of Water Resources
P.O. Box 942836
Sacramento, CA 94236-0001

Dear Mr. Cowin:

With the recent release of the Bay Delta Conservation Plan (BDCP), it is time to begin addressing related BDCP implementation topics such as cost allocation and financing. As you know, some State Water Project (SWP) contractors have held preliminary discussions on various approaches to allocating BDCP benefits and costs over the past months. This letter describes our thinking and requests that the Department of Water Resources (DWR) initiate appropriate contract discussions to support the approach identified here.

As background, the projected \$14.6 billion construction cost for BDCP Conservation Measure 1 (CM1), along with directly related mitigation, are assigned to water users. Costs for CM1 are planned to be split between the SWP and the CVP proportionate to the water received. This results in a projected average annual cost to the SWP contractors of \$700 million to \$765 million over a 40-year repayment period.

As you are aware, the SWP contractors are very interested in how these costs will be allocated among SWP contractors. Initial discussions have identified a wide range of potential options for allocating BDCP benefits and costs. These options ranged from allowing individual SWP contractors to opt-in to a preferred BDCP participation level to requiring all SWP contractors to be included.

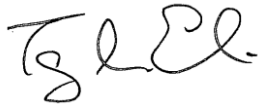
While a consensus alternative has not been identified to address various SWP contractor concerns and interests, some elements of a cost allocation approach have broad agreement. For example, there is general agreement on an assumption that North of Delta SWP contractors will be largely excluded from repayment obligations for the costs of BDCP CM1, although they would continue to be responsible for past obligations for existing facilities and Endangered Species Act compliance that are existing obligations of SWP contractors. North of Delta SWP contractors receive a different water supply allocation resulting from recent Area of Origin amendments. Although they may experience indirect effects of BDCP, they would generally not experience direct benefits of CM1 such as improved water quality or reduced threat of temporary water supply restrictions from catastrophic failure of Delta levees.

Other elements of a cost allocation approach will require discussion and development of consensus. Additionally, many SWP contractors support including related measures, such as revisions in water management policies in the SWP contracts, in a cost allocation process. We believe that considering revised water management practices is a sound management approach that provides flexibility for some contractors to address potential concerns about being able to afford the additional supply reliability provided by BDCP. By providing enhanced management

tools, individual SWP contractors would be able to sell or exchange their supply as needed to other SWP contractors on a willing partner basis. The proposed approach is also consistent with California's established policy stated in Water Code Section 109(a): "It is hereby declared to be the established policy of this state to facilitate the voluntary transfer of water and water rights where consistent with the public welfare of the place of export and the place of import."

All the potential allocation and water management measures being considered will require refinement and likely will evolve as we move forward. Since many of the approaches involve potential contract amendments, these will need to be discussed in a public process in compliance with DWR policies. We are interested in your views on the proposed process to develop cost allocations and would like to begin discussing specific actions that we can take jointly to define BDCP cost allocation issues.

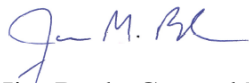
Sincerely Yours,



Terry Erlewine, General Manager
State Water Contractors



Jim Barrett, General Manager
Coachella Valley Water District



Jim Beck, General Manager
Kern County Water Agency



Walt Wadlow, General Manager
Alameda County Water District



Jill Duerig, General Manager
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